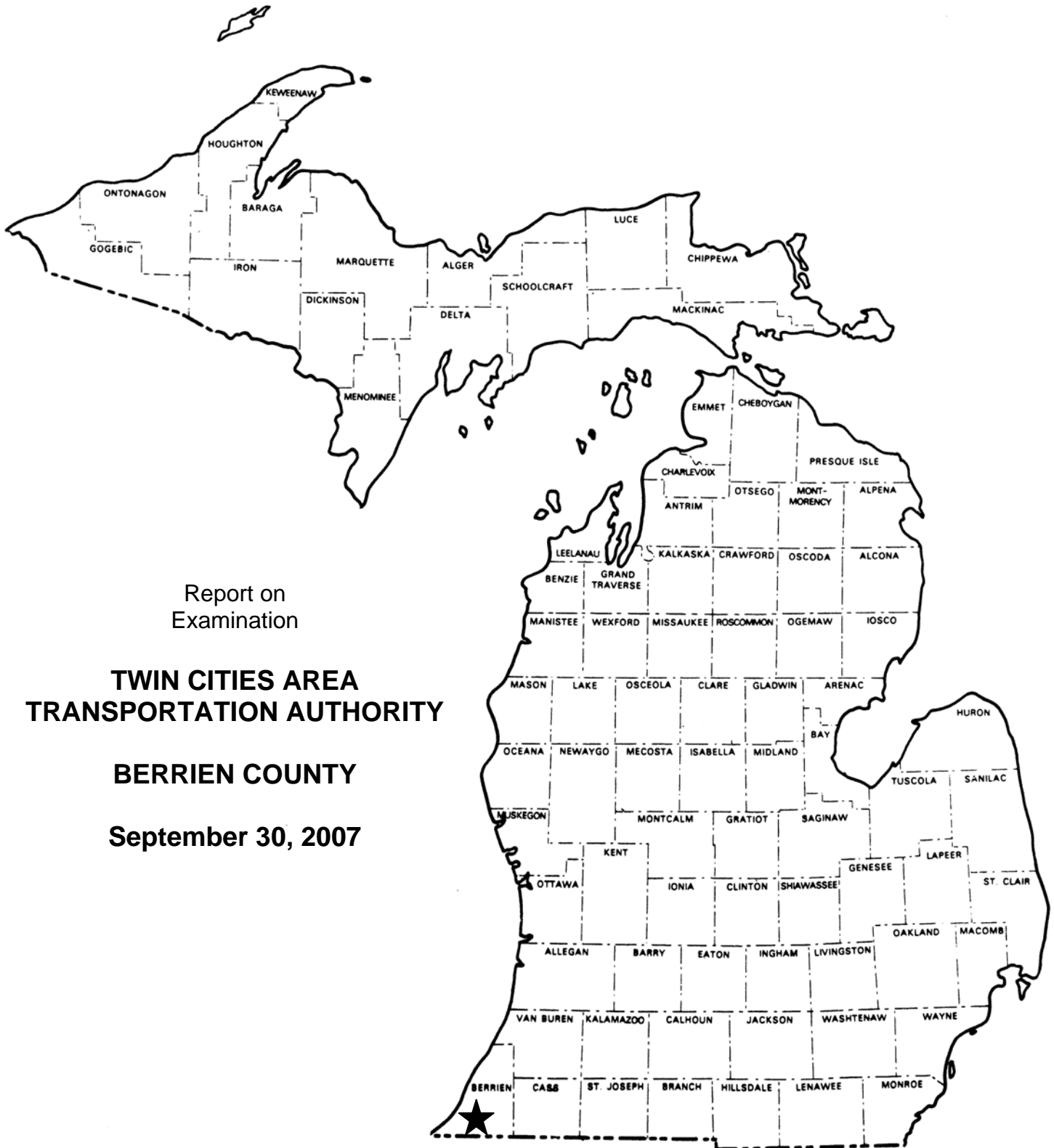


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**TWIN CITIES AREA
TRANSPORTATION AUTHORITY**

BERRIEN COUNTY

September 30, 2007

TWIN CITIES AREA TRANSPORTATION AUTHORITY

BOARD OF TRUSTEES

Charles Yarbrough
Chairman

Janice McAlpine
Vice Chairman/Secretary

Ralph Pringle
Trustee

Willie Kelly
Trustee

Herbert Singleton
Trustee

Bill Purvis
Executive Director

CITY OF BENTON HARBOR POPULATION--2000
12,818

STATE EQUALIZED VALUATION—2006
143,961,471

TAXABLE VALUATION--2006
\$130,641,399



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 6, 2007

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Unqualified Opinion on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the business-type activities of Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, as of and for the year ended September 30, 2007, which comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Twin Cities Area Transportation Authority, as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2007 on our consideration of the Twin Cities Area Transportation Authority's

internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 5 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Twin Cities Area Transportation Authority's basic financial statements. The accompanying supplemental information in Schedules 1, 3, 4R, 4E, 5S, and 5F are presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards (Schedule 2) is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. With the exception of Schedule 4N marked "unaudited," the information on schedules 1, 3, 4R, 4E, 5S, and 5F have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

TWIN CITIES AREA TRANSPORTATION AUTHORITY

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TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Twin Cities Area Transportation Authority's (Authority) financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

Overview of the Financial Statements

This annual report consists of three parts--management's discussion and analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Authority:

- The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Authority's financial health or position.
- The remaining statement is a statement of cash flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Authority as a Whole

The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets include all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority, you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Authority's buses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Authority as a Whole

The Authority's net assets increased approximately 6.90%, or \$75,014, from \$1,087,746 to \$1,162,760 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Net Assets

The unrestricted net assets increased by \$97,251 during 2007 with the new CMAQ grant received. The investment in capital assets decreased \$22,237. The decrease is due to the depreciation expense for the year, which increased the accumulated depreciation.

Net assets as of the fiscal year ended September 30, 2007, compared to the prior fiscal year, are as follows:

	<u>2006</u>	<u>2007</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 231,352	\$ 330,292	\$ 98,940	42.77%
Capital Assets	<u>880,622</u>	<u>858,385</u>	<u>(22,237)</u>	<u>-2.53%</u>
Total Assets	<u>1,111,974</u>	<u>1,188,677</u>	<u>76,703</u>	<u>6.90%</u>
Current Liabilities	<u>24,228</u>	<u>25,917</u>	<u>1,689</u>	<u>6.97%</u>
Total Liabilities	<u>24,228</u>	<u>25,917</u>	<u>1,689</u>	<u>6.97%</u>
Net Assets				
Invested in Capital Assets	880,622	858,385	(22,237)	-2.53%
Unrestricted	<u>207,124</u>	<u>304,375</u>	<u>97,251</u>	<u>46.95%</u>
Total Net Assets	<u>\$1,087,746</u>	<u>\$1,162,760</u>	<u>\$ 75,014</u>	<u>6.90%</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

Changes in net assets for the fiscal year ended September 30, 2007, compared to the prior fiscal year, are as follows:

	2006	2007	Variance	%
Operating Revenue				
Passenger Fares	\$ 217,149	\$ 232,400	\$ 15,251	7.02%
Special Transit Fares	74,356	48,011	(26,345)	-35.43%
Auxiliary Transportation Revenues	6,897	6,365	(532)	-7.71%
Nonoperating Revenue				
Local Contributions				
Tax Levy	101,108	99,703	(1,405)	-1.39%
State of Michigan Operating Grants				
Local Bus Operating Assistance (Act 51)	612,098	553,173	(58,925)	-9.63%
Federal Operating Grants				
USDOT Operating Grant (Section 5307)	517,776	572,407	54,631	10.55%
Congestion Mitigation and Air Quality		136,718	136,718	100.00%
State and Federal Grants--Prior Year Adjustments	36,565	16,393	(20,172)	-55.17%
Interest Earned	7,691	5,459	(2,232)	-29.02%
Other	10,489	23,537	13,048	124.40%
Sale of Fixed Assets	500	14,000	13,500	2700.00%
Total Revenue	<u>1,584,629</u>	<u>1,708,166</u>	<u>123,537</u>	<u>7.80%</u>
Operating Expense				
Salaries and Wages	1,079,552	1,134,052	54,500	5.05%
Depreciation	351,550	272,806	(78,744)	-22.40%
Other	498,465	501,863	3,398	0.68%
Total Operating Expense	<u>1,929,567</u>	<u>1,908,721</u>	<u>(20,846)</u>	<u>-1.08%</u>
Income (Loss) Before Capital Contributions and Operating Transfers	(344,938)	(200,555)	144,383	-41.86%
Capital Contributions				
State of Michigan Capital Grants				
Capital Grant	59,206	50,114	(9,092)	-15.36%
Federal Capital Grants				
Capital Grant (Section 5307)	236,824	200,455	(36,369)	-15.36%
Transfers In--Primary Government	<u>25,000</u>	<u>25,000</u>	<u>-</u>	<u>0.00%</u>
Increase (Decrease) in Net Assets	<u>(23,908)</u>	<u>75,014</u>	<u>98,922</u>	<u>-413.76%</u>
Ending Net Assets	<u><u>\$1,087,746</u></u>	<u><u>\$1,162,760</u></u>	<u><u>\$ 75,014</u></u>	<u><u>6.90%</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

There was a decrease in Special Transit Fares due to a contract customer's program completion and there was an increase in farebox revenues. State Operating revenues were decreased because the percent of reimbursement of expenses have decreased. The Federal Operating revenues decreased because of a CMAQ grant that reduced eligible expenses which reduced the Federal Share cap.

Prior to the beginning of any year, the Authority's budget is compiled based upon certain assumptions and facts available at that time. The final budget for 2007 was \$1,505,930. The expenses were over the budget this year due to the increase in the cost of fuel and an increase in line haul service due to a CMAQ grant.

Capital Asset Administration

As of September 30, 2007, the Authority had \$858,385 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$22,237 or 2.53% as follows:

	2006	2007	Total Percentage Change 2006-2007
Capital Assets Not Being Depreciated			
Land	\$ 62,700	\$ 62,700	0.00%
Subtotal	62,700	62,700	0.00%
Capital Assets Being Depreciated			
Building	1,529,724	1,610,750	5.30%
Other Vehicles	113,418	113,418	0.00%
Buses	1,222,858	1,079,797	-11.70%
Shop Equipment	137,769	137,769	0.00%
Office Equipment	152,129	174,707	14.84%
Vehicle Locator	155,553	155,553	0.00%
Subtotal	3,311,451	3,271,994	-1.19%
Total Capital Assets	3,374,151	3,334,694	-1.17%
Total Accumulated Depreciation	2,493,529	2,476,309	-0.69%
Total Net Capital Assets	<u>\$ 880,622</u>	<u>\$ 858,385</u>	<u>-2.53%</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The 2007/2008 budget is \$1,621,672 which is about the same as the 2006/2007 audited amount. We will try to keep our expenses at the current rate. Our biggest concern is the cost of fuel.

Contacting the Authority's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Authority's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority's office at 275 East Wall Street, Benton Harbor, Michigan 49023-0837.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
September 30, 2007

EXHIBIT A

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 133,850
Accounts Receivable	9,129
Due From State Government	18,290
Due From Federal Government	118,966
Due From Primary Government	13,851
Inventory	2,675
Prepaid Expenses	<u>33,531</u>

Total Current Assets 330,292

Noncurrent Assets

Capital Assets (Net of Accumulated Depreciation)	<u>858,385</u>
--	----------------

Total Noncurrent Assets 858,385

Total Assets \$1,188,677

LIABILITIES

Current Liabilities

Accounts Payable	\$ 9,817
Accrued Wages and Fringe Benefits	<u>16,100</u>

Total Current Liabilities 25,917

NET ASSETS

Invested in Capital Assets--Net of Related Debt	858,385
Unrestricted	<u>304,375</u>

Total Net Assets \$1,162,760

The Notes to Financial Statements are an integral part of this statement.

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
For the Year Ended September 30, 2007**

EXHIBIT B

Operating Revenue	
Passenger Fares	\$ 232,400
Special Transit Fares	48,011
Auxiliary Transportation Revenues	<u>6,365</u>
Total Operating Revenue	<u>286,776</u>
Operating Expense	<u>1,908,721</u>
Total Operating Expense	<u>1,908,721</u>
Operating Income (Loss)	<u>(1,621,945)</u>
Nonoperating Revenue	
Local Contributions	
Tax Levy	99,703
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	553,173
Federal Operating Grants	
USDOT Operating Grant (Section 5307)	572,407
Congestion Mitigation and Air Quality	136,718
State and Federal Grants--Prior Year Adjustments	16,393
Gain on Sale of Assets	14,000
Interest Earned	5,459
Insurance Recoveries	<u>23,537</u>
Total Nonoperating Revenue	<u>1,421,390</u>
Income (Loss) Before Capital Contributions and Operating Transfers	(200,555)
Capital Contributions	
State of Michigan Capital Grants	
Capital Grant	50,114
Federal Capital Grants	
Capital Grant (Section 5307)	200,455
Transfers In From Primary Government	<u>25,000</u>
Change in Net Assets	<u>75,014</u>
Total Net Assets--October 1, 2006	<u>1,087,746</u>
Total Net Assets--September 30, 2007	<u><u>\$1,162,760</u></u>

The Notes to Financial Statements are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2007

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 288,554
Cash Payments to Employees for Services and Benefits	(1,118,369)
Cash Payments to Suppliers for Goods and Services	(501,698)
Net Cash Provided by Operating Activities	<u>(1,331,513)</u>
Cash Flows From Noncapital Financing Activities	
State Grants	592,740
Federal Grants	660,945
State and Federal Grants--Prior Year Adjustments	16,393
Property Tax	111,862
Other Revenue	23,537
Transfers In From Primary Government	<u>25,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,430,477</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(250,569)
Capital Assets Purchased With State and Federal Grants	241,827
Sale of Fixed Assets	<u>14,000</u>
Net Cash Provided From Capital and Related Financing Activities	5,258
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>5,459</u>
Net Cash Provided by Investing Activities	5,459
Net Decrease in Cash and Cash Equivalents	109,681
Cash and Cash Equivalents at Beginning of the Year	<u>24,169</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 133,850</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (1,621,945)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Noncash Items)	
Depreciation Expense	272,806
(Increase) Decrease in Accounts Receivable	1,778
(Increase) Decrease in Inventory	8,475
(Increase) Decrease in Prepaid Expenses	5,684
Increase (Decrease) in Accounts Payable	(13,994)
Increase (Decrease) in Other Accrued Liabilities	<u>15,683</u>
Net Cash Provided by Operating Activities	<u><u>\$(1,331,513)</u></u>

The Notes to Financial Statements are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the Twin Cities Area Transportation Authority. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

The Twin Cities Area Transportation Authority (Authority) was incorporated in the State of Michigan on July 1, 1974 under Public Act 55 of 1963. The purpose of the Authority is to acquire, own, operate, and manage a public transportation system within the boundaries of its participating municipality, the City of Benton Harbor. Given that the City of Benton Harbor has significant influence over the Authority and is the only participating municipality, the Twin Cities Area Transportation Authority is a component unit of the City of Benton Harbor. The Twin Cities Area Transportation Authority is, for financial purposes within generally accepted accounting principles, an enterprise fund of the City of Benton Harbor.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Twin Cities Area Transportation Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Presentation

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets) report information of the activities of the Twin Cities Area Transportation Authority. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Authority's assets and liabilities with the difference being reported as either invested in capital assets or unrestricted net assets.

The Statement of Revenues, Expenses and Changes in Net Assets demonstrates the degree to which the operating expenses of a given function or segment are offset by operating revenues. Operating expenses are those that are clearly identifiable with a specific function or segment. Operating revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among operating revenues are reported instead as nonoperating revenue.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial activities of the Authority are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing bus services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the bus services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting and financial reporting, issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Authority has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as needed.

Inventories

Inventories of gas and parts are stated at the lower of cost (first-in, first-out) or market.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Twin Cities Area Transportation Authority's capital assets are recorded at cost. Costs relating to maintenance and repairs are charged to expense; whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Operating Facility	2 to 20 years
Vehicles	3 to 7 years
Shop Equipment	3 to 10 years
Office Equipment	6 to 10 years

Depreciation expense for the year ended September 30, 2007 was \$272,806.

Property Taxes

Property taxes are levied each December 1 on the taxable valuation of properties located in the City of Benton Harbor as of the preceding December 31. The City of Benton Harbor's 2006 ad valorem tax was levied and collectible on December 1, 2006. It is the policy of Twin Cities Area Transportation Authority to recognize revenue from the current tax levy in the 2006/2007 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Authority's operations.

The 2006 real and personal taxable valuation of Benton Harbor property, excluding \$27,153,183 Renaissance Zone, amounted to \$103,488,216. Ad valorem taxes of 1.0064 mills were levied for Twin Cities Area Transportation Authority operating purposes amounting to \$104,151.

Cash and Investments

For the purpose of the statement of cash flows, demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents. Investments are stated at fair value and short-term investments are reported at cost which approximates fair value.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fiscal Year

Twin Cities Area Transportation Authority operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the June 30 fiscal year of the City of Benton Harbor.

NOTE C--DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Twin Cities Area Transportation Authority are at a local bank in the name of the Authority. Michigan Compiled Laws, Section 129.91 et al., authorizes the city to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Authority's deposits are in accordance with State statutory authority. The cash balance as presented in Exhibit A, includes \$230 in imprest cash.

The risk disclosures for the Authority's deposits, as required by GASB Statement No. 40, are as follows:

	<u>Business-Type Activities</u>
Cash	\$ 133,620
Petty Cash	<u>230</u>
Total Deposits	<u><u>\$ 133,850</u></u>

The bank balance of the Authority's deposits is \$152,886, of which \$100,000 is covered by Federal depository insurance.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

Investments Authorized by the Authority's Investment Policy

The Authority's investment policy authorizes investment in all those that are authorized by law. The Authority did not have any investments in the fiscal year ended September 30, 2007.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Authority's investment policy does not contain specific provisions to limit the Authority's exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority's investment policy does not contain specific provisions to limit the Authority's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Authority's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Authority's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE C--DEPOSITS AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Authority's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Authority is not exposed to custodial credit risk for investments.

NOTE D--DUE FROM PRIMARY GOVERNMENT

The City of Benton Harbor owes the Authority \$7,601 for taxes collected in the fiscal year ended September 30, 2007.

NOTE E--ACCRUED EMPLOYEE BENEFITS

Accrued employee benefits for vacation and sick leave are as follows:

Vacation Leave

Employees with 5 full years or less of continuous full-time employment--80 hours per year.

Employees with more than 5, but 8 full years or less of continuous full-time employment--100 hours per year.

Employees with more than 8 full years of continuous full-time employment--120 hours per year.

Unused vacation leave is lost at the end of each calendar year and accumulates at the beginning of the year.

Sick Leave

Sick leave is earned at 20 hours per quarter with no maximum accumulation and is not payable at separation.

The Authority does not record any accrued liabilities for vacation, sick and personal leave in its financial statements.

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE F--DUE FROM STATE GOVERNMENT

The following amount was due at September 30, 2007:

State Operating Assistance for Fiscal Year 2005/2006	\$ 15,300
State Operating Assistance for Fiscal Year 2006/2007	(28,429)
State Capital Assistance (MI-90-X496)	<u>31,419</u>
Total Due From State	<u>\$ 18,290</u>

NOTE G--DUE FROM FEDERAL GOVERNMENT

The following amount was due at September 30, 2007:

Federal Operating Assistance for Fiscal Year 2003/2004	\$ 9,577
Federal Operating Assistance for Fiscal Year 2005/2006	10,531
Federal CMAX Grant (MI-90-X472)	(17,311)
Federal Operating Assistance for Fiscal Year 2006/2007	<u>116,169</u>
Total Due From Federal Government	<u>\$ 118,966</u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS

Capital asset activity of the Authority for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 62,700			\$ 62,700
Subtotal	62,700	\$ -	\$ -	62,700
Capital Assets Being Depreciated				
Building	1,529,724	81,026		1,610,750
Other Vehicles	113,418			113,418
Buses	1,222,858	146,965	290,026	1,079,797
Shop Equipment	137,769			137,769
Office Equipment	152,129	22,578		174,707
Vehicle Locator	155,553			155,553
Subtotal	3,311,451	250,569	290,026	3,271,994
Less Accumulated Depreciation for				
Building	1,248,758	81,872		1,330,630
Other Vehicles	85,622	14,437		100,059
Buses	756,867	153,778	290,026	620,619
Shop Equipment	135,557	1,562		137,119
Office Equipment	124,135	8,197		132,332
Vehicle Locator	142,590	12,960		155,550
Subtotal	2,493,529	272,806	290,026	2,476,309
Net Capital Assets Being Depreciated	817,922	(22,237)	-	795,685
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation	\$ 880,622	\$ (22,237)	\$ -	\$ 858,385

TWIN CITIES AREA TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE I--RISK MANAGEMENT

The Twin Cities Area Transportation Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Authority has purchased commercial insurance for business auto repairs, commercial general liability, commercial inland marine (radio and TV), commercial property (building and contents), computerized business equipment, workers' compensation and medical benefit claims. The Authority participates in the Michigan Transit Pool for claims relating to auto and general liability. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past 3 fiscal years.

The Michigan Transit Insurance Pool (Pool) was created pursuant to the provisions of Public Act 35 of 1951 and was incorporated under the Michigan Nonprofit Corporation Act, being MCL Sections 450.2101 et seq., as the Michigan Transit Pool, Inc. The Pool is to provide administrative loss protection programs for the members, to pool losses and claims, to jointly purchase commercial services, including claims adjusting, data processing, risk management consulting, loss prevention, legal and related services. The Michigan Transit Insurance Pool is a separate legal and administrative entity. Settled claims for the Pool have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE K--TRANSFER IN--PRIMARY GOVERNMENT

During the fiscal year ended September 30, 2007, the City of Benton Harbor appropriated \$25,000 to the Authority as an annual subsidy.

SCHEDULE 1**TWIN CITIES AREA TRANSPORTATION AUTHORITY
LOCAL REVENUES
For the Year Ended September 30, 2007**

LOCAL REVENUES	
Farebox	\$ 232,400
Contract Fares	48,011
Concessions	2,849
Advertising	1,021
Other Auxillary Trans Revenues	2,414
Gains From Sales of Capital Assets	14,000
Sales of Maintenance Services	23,618
Taxes Levied Directly for/by Transit Agency	99,703
Local Operating Assistance	25,000
Interest Income	<u>5,460</u>
Total Local Revenues	<u><u>\$ 454,476</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (1,2)
For the Year Ended September 30, 2007

SCHEDULE 2

	Federal CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures				Prior Year's Expenditure	Amount Remaining
				Total	Federal	State	Local		
US Department of Transportation									
Direct Pass Through US Department of Transportation									
Capital Assistance	20.507	MI-90-X470/Z4	\$ 105,840	\$ 9,993	\$ 7,995	\$ 1,998		\$ 91,164	\$ 4,683
Capital Assistance	20.507	MI-90-X472/Z6	225,000					204,866	20,134
Capital Assistance	20.507	MI-90-X496/Z7	165,000	146,965	117,572	29,393			18,035
Total Capital Assistance				156,958	125,567	31,391	\$ -	296,030	42,852
US Department of Transportation									
Direct Pass Through US Department of Transportation									
Operating Assistance--Section 5307	20.507	MI-90-X523	572,407	572,407 (3)	572,407				-
CMAQ	20.205	MI-90-X472	136,718	136,718	136,718				-
Total Operating Assistance				709,125	709,125				-
<u>US Department of Transportation</u>									
Passed through Michigan Department of Transportation									
Capital Assistance	20.500	MI-03-0226/Z5	36,443	36,443	29,154	7,289			-
Capital Assistance	20.500	MI-04-0009/Z8	110,138	57,168	45,734	11,434			52,970
Total Capital Assistance				93,611	74,888	18,723	-	-	52,970
<u>Michigan Department of Transportation</u>									
Operating Assistance--Act 51	N/A	N/A	553,173	553,173 (4)		553,173			-
Total Department of Transportation				\$ 1,512,867	\$ 909,580	\$ 603,287	\$ -	\$ 296,030	\$ 95,822

The Notes to Schedule of Expenditures of Federal and State Awards are an integral part of this statement.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
For the Year Ended September 30, 2007

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of the Twin Cities Area Transportation Authority. Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting which is described in Note B of the Authority's basic financial statements.
3. Maximum Section 5307 operating assistance revenue can be 50% of Net Eligible Expenses as presented in Schedule 5F, not to exceed the local match or contract limit. The Federal Section 5307 operating assistance of \$572,407 was recognized based on the contract limit.
4. State operating assistance of \$553,173 was recognized based on the net eligible cost computation presented as Schedule 5S. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of statewide available funding. It could be as low as \$288,947, which is the 1997 floor; or as high as \$841,232, which is the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the state operating assistance percentage in Schedule 5S after audited closeouts based on statewide eligible expenses.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
OPERATING AND CONTRACT EXPENSES
For the Year Ended September 30, 2007

SCHEDULE 3

<u>Expenses</u>	Nonurban State Operating FY 2007*	Nonurban Operating CMAQ	Total
Labor	\$ 690,642	76,546	767,188
Fringe Benefits	326,239	40,625	366,864
Services	171,134	22,621	193,755
Materials and Supplies	164,030	21,294	185,324
Utilities	41,202	5,296	46,498
Casualty and Liability Costs	40,961	5,094	46,055
Taxes and Fees	606	91	697
Miscellaneous	12,310	1,737	14,047
Interest	5,804	867	6,671
Leases and Rentals	7,790	1,026	8,816
Depreciation	272,806		272,806
Total Expenses	<u>\$ 1,733,524</u>	<u>\$ 175,197</u>	<u>\$1,908,721</u>

*The expenses incurred for the state operating assistance are the same as the expenses incurred for the Section 5307 Federal operating assistance.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
OPERATING ASSISTANCE REPORT--REVENUES--REGULAR SERVICE
For the Year Ended September 30, 2007

SCHEDULE 4R

REVENUE SCHEDULE REPORT

CODE	DESCRIPTION	LINE HAUL	DEMAND RESPONSE	TOTAL
401:	Farebox Revenue			
40100	Passenger Fares	\$ 8,174	\$ 224,226	\$ 232,400
40200	Contract Fares		48,011	48,011
406:	Auxiliary Trans Revenues			
40610	Concessions		2,849	2,849
40615	Advertising		1,021	1,021
40699	Other Auxillary Trans Revenues		2,414	2,414
407:	NonTrans Revenues			
40760	Gains From Sales of Capital Assets		14,000	14,000
40710	Sales of Maintenance Services		23,618	23,618
408:	Local Revenue			
40800	Taxes Levied Directly for/by Transit Agency	26,630	73,073	99,703
409:	Local Revenue			
40910	Local Operating Assistance		25,000	25,000
411:	State Formula and Contracts			
41101	State Operating Assistance	33,493	519,680	553,173
41110	Line-Item Municipal Credit (Prior Year Adjustments)		16,393	16,393
413:	Federal Contracts			
41302	Federal Section 5307		572,407	572,407
41399	Other FTA Contracts--CMAQ Funds for Line Haul	136,718		136,718
414:	Other Revenue			
41400	Interest Income		5,460	5,460
TOTAL REVENUES		\$ 205,015	\$ 1,528,152	\$ 1,733,167

TWIN CITIES AREA TRANSPORTATION AUTHORITY
OPERATING ASSISTANCE REPORT--EXPENSES--REGULAR SERVICE
For the Year Ended September 30, 2007

SCHEDULE 4E

EXPENSE SCHEDULE REPORT

CODE	DESCRIPTION	OPER- ATIONS LINE HAUL	OPER- ATIONS DEMAND RESPONSE	MAIN- TENANCE LINE HAUL	MAIN- TENANCE DEMAND RESPONSE	ADMINI- STRATION LINE HAUL	ADMINI- STRATION DEMAND RESPONSE	TOTAL
501:	Labor							
50101	Operators' Salaries and Wages	\$ 97,645	\$ 329,749					\$ 427,394
50102	Other Salaries and Wages	3,410	19,776	\$ 9,579	\$ 55,555	\$ 22,841	\$ 112,922	224,083
50103	Dispatchers' Salaries and Wages		115,710					115,710
502:	Fringe Benefits							
50200	Other Salaries and Wages	38,634	221,022	7,411	42,984	9,559	47,256	366,866
503:	Services							
50302	Advertising Fees					809	4,682	5,491
50305	Audit Cost				1,066	5,285		6,351
50399	Other Services	278	5,517	23,503	130,668	3,683	18,263	181,912
504:	Materials and Supplies							
50401	Fuel & Lubricants	17,389	135,058					152,447
50402	Tires & Tubes	1,199	6,862			16	77	8,154
50404	Major Supplies					561	3,754	4,315
50499	Other Materials and Supplies			1,354	7,531	1,934	9,589	20,408
505:	Utilities							
50500	Utilities	3,263	18,668	3,127	16,891	1,444	3,105	46,498
506:	Insurance							
50603	Liability Insurance	5,518	31,570					37,088
50699	Other Insurance					1,505	7,464	8,969
507:	Taxes and Fees							
50700	Taxes and Fees					117	580	697
509:	Miscellaneous Expenses							
50902	Travel, Meetings & Training	285	1,631			918	4,553	7,387
50903	Association Dues & Subscriptions					375	1,857	2,232
50999	Other Miscellaneous Expenses	263	1,503			446	2,214	4,426
511:	Interest Expense							
51103	Interest on State Advances					1,120	5,551	6,671
512:	Operating Leases and Rentals							
51200	Operating Leases and Rentals	504	2,742	579	3,222	297	1,472	8,816
513:	Depreciation							
51300	Depreciation		153,775		11,402		107,629	272,806
TOTAL EXPENSES		168,388	1,043,583	45,553	269,319	50,910	330,968	1,908,721
550:	Ineligible Expenses							
55007	Ineligible Depreciation		153,397		11,402		107,629	272,428
55008	Other Ineligible Expenses--Refunds					3,060	20,477	23,537
55009	Ineligible Percent of Association Dues					28	182	210
55010	Other Ineligible Expense--Vending Expense					446	2,214	2,660
570:	Ineligible Expenses							
57099	Other Ineligible FSL	104,171		35,464		31,262		170,897
580:	Ineligible Expenses							
58002	Ineligible Interest on State Advances					1,120	5,551	6,671
TOTAL INELIGIBLE EXPENSES		104,171	153,397	35,464	11,402	35,916	136,053	476,403
TOTAL ELIGIBLE EXPENSES		\$ 64,217	\$ 890,186	\$ 10,089	\$ 257,917	\$ 14,994	\$ 194,915	\$ 1,432,318

**TWIN CITIES AREA TRANSPORTATION AUTHORITY
OPERATING ASSISTANCE REPORT--REGULAR SERVICE
NONFINANCIAL DATA--UNAUDITED
For the Year Ended September 30, 2007**

SCHEDULE 4N

NONFINANCIAL SCHEDULE REPORT

CODE	DESCRIPTION	Weekday Line Haul	Weekday Demand Response	Saturday Line Haul	Saturday Demand Response	TOTAL
Public Service						
610	Vehicle Hours	5,250	28,166	364	2,706	36,486
611	Vehicle Miles*	66,150	364,703	5,023	34,327	470,203
615	Passengers--Regular	3,777	98,447	492	13,026	115,742
616	Passengers--Elderly	9,054	18,295	803	2,468	30,620
617	Passengers--Persons w/Disabilities	51,777	21,444	1,035	1,165	75,421
621	Total Line-Haul Passengers	18,008	138,186	2,330		158,524
622	Total Demand-Response Passengers		138,186		16,659	154,845
625	Days Operated	250	250	52	52	604

Vehicle Information		Quantity
653	Total Line-Haul Vehicles	3
654	Line-Haul Vehicles w/Lifts	3
655	Total Demand-Response Vehicles	20
656	Demand-Response Vehicles	15
658	Total Transit Vehicles	23

Miscellaneous Information		Quantity LH	Quantity DR
601	Number of Routes (Line Haul Only)	2	
602	Total Route Miles (Line Haul Only)	38	
660	Diesel/Gasoline Gallons Consumed	11,831	66,329
661	Total Transit Agency Employees	3	28
662	Total Revenue Vehicle Operators	3	15
663	Number of Accidents		1

*Mileage is computed from daily logs maintained by the Authority and then computed and entered into the Operating Assistance Report using the codes above as required by the Local Public Transit Revenue and Expense Manual issued by the Michigan Department of Transportation.

TWIN CITIES AREA TRANSPORTATION AUTHORITY
OPERATING ASSISTANCE CALCULATION
For the Year Ended September 30, 2007

SCHEDULE 5S

	<u>Nonurban</u>
Total Operating Expenses	<u>\$ 1,908,721</u>
Less: Ineligible Expenses	
Depreciation	272,428
Other Revenue	23,537
Dues and Subscriptions	210
Vending Machines	2,660
Line Haul Funded by Other Federal Grants	170,897
Interest	<u>6,671</u>
Total Ineligible Expenses Per R&E Manual	<u><u>\$ 476,403</u></u>
Total State Eligible Expenses	<u><u>\$ 1,432,318</u></u>

Eligible Expenses for State Reimbursement	\$ 1,432,318
Reimbursement Percentage	<u>38.6208%</u>
State Operating Assistance	<u><u>\$ 553,173</u></u>

TWIN CITIES AREA TRANSPORTATION AUTHORITY
OPERATING ASSISTANCE CALCULATION
For the Year Ended September 30, 2007

SCHEDULE 5F

		<u>Urban</u>
Total Operating Expenses		<u>\$ 1,908,721</u>
Less: Ineligible Expenses		
Depreciation	\$ 272,428	
Other Revenue	23,537	
Dues and Subscriptions	210	
Vending Machines	2,660	
Line Haul Funded by Other Federal Grants	<u>170,897</u>	
Total Ineligible Expenses Per R&E Manual		<u>469,732</u>
Total Federal Eligible Expenses		<u>1,438,989</u>
Less Farebox and Other Revenues		
Farebox	(272,861)	
Nontransportation Revenues	<u>(3,516)</u>	
Total Farebox and Other Revenues		<u>(276,377)</u>
Net Project Cost		<u>1,162,612</u>
Maximum Amount of Reimbursement (Net Project Cost x 50%)		<u>581,306</u>
FTA Fund Available		<u>572,407</u>
FTA Funds Requested		<u><u>\$ 572,407</u></u>

**Twin Cities Area Transportation Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007**

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control Over Financial Reporting:

• Material weakness(es) identified?	_____	Yes	_____	X	_____	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	_____	X	_____	No
Noncompliance material to financial statements noted?	_____	Yes	_____	X	_____	No

Federal Awards

Internal Control Over Major Programs:

• Material weakness(es) identified?	_____	Yes	_____	X	_____	No
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____	Yes	_____	X	_____	No

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____	Yes	_____	X	_____	No
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**Twin Cities Area Transportation Authority
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007**

Section I--Summary of Auditor's Results (Continued)

Identification of Major Programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.507	Federal Transit: Urbanized Area Formula Program--Capital and Operating Assistance

Dollar threshold used to distinguish
between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X

Yes

 No

Section II--Financial Statement Findings

SIGNIFICANT DEFICIENCIES

No matters were reported.

STATUTORY COMPLIANCE

No matters were reported.

Section III--Federal Award Findings and Questioned Costs

No matters were reported.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 6, 2007

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
P.O. Box 837
Benton Harbor, Michigan 49023-0837

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the financial statements of Twin Cities Area Transportation Authority, a component unit of the City of Benton Harbor, Michigan, as of and for the year ended September 30, 2007, and have issued our report thereon dated December 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Twin Cities Area Transportation Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Twin Cities Area Transportation Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Twin Cities Area Transportation Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twin Cities Area Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of Twin Cities Area Transportation Authority's Board of Trustees, the Authority's management, others within the Authority, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

December 6, 2007

Board of Trustees
Twin Cities Area Transportation Authority
275 East Wall Street
Post Office Box 837
Benton Harbor, Michigan 49023-0837

RE: Report on Compliance With Requirements Applicable to Each Major Program and on
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Board Members:

Compliance

We have audited the compliance of Twin Cities Area Transportation Authority (component unit of the City of Benton Harbor, Michigan) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2007. Twin Cities Area Transportation Authority's major Federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Twin Cities Area Transportation Authority's management. Our responsibility is to express an opinion on Twin Cities Area Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about Twin Cities Area Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Twin Cities Area Transportation Authority's compliance with those requirements.

In our opinion, Twin Cities Area Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Twin Cities Area Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Twin Cities Area Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a significant deficiency in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Twin Cities Area Transportation Authority's Board of Trustees, the Authority's management, others within the Authority, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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